

OBSERVATIONS

- COVID-19: Results from a study released by Eli Lilly showed antibody therapy Bamlanivimab exhibited effectiveness in treating COVID-19 and helped to prevent symptomatic cases. Lilly notes the drug is not competition for vaccines, but it may prove useful in many circumstances.¹
 - As of 24-Jan, 63 million vaccines have been administered across 56 countries. The U.S. has managed 21.1 million doses and is averaging nearly 1.06 million doses per day.²
- Thanks in part to the pandemic, Netflix added 36.6 million new subscribers in 2020, a record. The company now has over 200 million total subscribers with 60% of those living outside the U.S..²
- Janet Yellen, U.S. Treasury Secretary nominee, urged politicians to act on spending noting that “the smartest thing we can do is act big.” The comments were part of Yellen’s Senate confirmation hearing and once confirmed she will become the 78th Treasury Secretary of the United States – and most importantly, the first woman to hold the distinction.³
 - On cryptocurrencies, Yellen pledged to work with regulators to develop an effective regulatory framework, noting that “We need to look closely at how to encourage their use for legitimate activities while curtailing their use for malign and illegal activities.”²
- Tight supply results in new highs for steel prices which reached \$1,080/ton - eclipsing the previous peak of \$1,070/ton in 2008.⁴
- Jobless claims remain high, 900k Americans filed initial claims for unemployment benefits last week.²
- According to Moody’s Analytics, if the \$1.9tn Biden stimulus plan were approved they estimate the economy could recover 10 million jobs by fall 2022.
- Nearly 90% of economists surveyed last week think the most likely next course of action by the Federal Reserve will be to taper its bond buying program – but likely not until late 2021 into early 2022.²
- 57 U.S. publicly traded companies have raised \$12.35 billion in secondary stock offerings so far this year (14 trading days) – both figures are records as compared to this time for any prior year.⁵

EXPECTATIONS

- Big headline week: On 25-Jan, House Speaker Pelosi will send Trump’s article of impeachment to the Senate, the Federal Reserve meets on 26-Jan to 27-Jan, and 118 S&P 500 companies will report earnings this week.⁶
- With U.S. households sitting on \$1.5 trillion of excess saving⁷ and a \$1.9 trillion stimulus plan before Congress, spending plans are on the rise and bond market participants, fearing demand pull inflation, are getting nervous. MTD U.S. 10-year Treasury yields have risen from 0.92% to 1.09%.²

ONE MORE THOUGHT

By the end of 2020, S&P 500 companies had increased cash levels on balance sheets to \$1.3tn⁸, mostly from borrowing that was fueled by low rates and supported by investor demand for yield. How that capital is deployed (i.e., doing nothing, reducing leverage, M&A, funding buybacks and dividends, or capital expenditures) remains to be seen given the economic uncertainty, however, could provide tailwinds as policy and pandemic uncertainty abate as

¹ STAT, <https://www.statnews.com/2021/01/21/eli-lilly-says-its-monoclonal-antibody-prevented-covid-19-in-clinical-trial/>

² Bloomberg LP

³ FT, WSJ

⁴ The Fabricator, Market Update 18-Jan, Bloomberg LP

⁵ https://www.wsj.com/articles/companies-are-selling-stock-at-record-pace-to-start-the-year-11611321362?mod=markets_lead_pos2

⁶ Bloomberg LP, Factset Earnings Insight (22-Jan)

⁷ BCA Research

⁸ FT, S&P Capital IQ

the year progresses. In the first few weeks of this year alone, corporations have announced plans to buyback nearly \$30bn of stock, +46% from this time last year⁹. Dividends for the S&P 500 are projected to grow by 4.6% over the next 3 years⁹ while Goldman Sachs forecasts capital expenditures (ex. Energy sector) to increase by 10% in 2021.¹⁰ Meanwhile, M&A activity involving S&P 500 companies reached \$1.22tn⁹ during 2020 and may witness similar activity in 2021. Moreover, emerging evidence suggests that investor preferences are shifting from a focus on balance sheet repair and more towards capital allocation plans geared towards growth – supporting the notion of economic reflation.¹¹ Ultimately, the path of the recovery and certainty in policy - be it taxes, trade, or stimulus - will help to determine how and when capital is allocated.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, Last 3 Month Total Return = 19-Oct-20 to 19-Jan-21, "Other" = companies not rated by S&P or holding companies with multiple subsidiaries who may be rated. "Other" represents 13% (67 of 503) of index constituents.

The rally over the last 3 months (S&P 500 up +11.3% from 19-Oct-20 to 19-Jan-21) has generally been supported by lower rated companies within the index. Nearly 60% of index constituents have long term credit ratings of BBB or lower. Microsoft and Johnson & Johnson are the sole AAA rated companies.

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⁹ Bloomberg LP

¹⁰ <https://www.reuters.com/article/us-usa-election-capex/u-s-corporate-spending-plans-could-stumble-as-risks-rise-idUSKBN27D3AS>

¹¹ <https://www.ft.com/content/c9674c80-a206-4d39-ad4e-e1a9047ef08c>